

31 July 1995

Title: "O'Leary: US Wants to Restore Full Ties with New Zealand."

Remarks by State Department official Sandra O'Leary before a House International Relations subcommittee regarding the need to restore US security links and other ties with New Zealand. (950731)

Date: 19950731

Text: \*EPF104 07/31/95 O'LEARY: U.S. WANTS TO RESTORE FULL TIES WITH NEW ZEALAND (Text: 7/31 HIRC Subcommittee on Asia and the Pacific) (3540) Washington — "The ultimate aim of our efforts with respect to New Zealand is to restore the broad range of ties — including security links — with New Zealand that we enjoyed prior to the events of the mid-1980s," said Sandra O'Leary, deputy assistant secretary of state for East Asia and Pacific affairs.

Testifying at a July 31 hearing of the House International Relations Subcommittee on Asia and the Pacific, O'Leary said that in the mid-1980s, New Zealand adopted anti-nuclear policies, later enacted as legislation, that effectively bar visits by U.S. military ships or aircraft that carry nuclear weapons or are nuclear-powered.

"This of course conflicts with our longstanding, global policy of neither confirming nor denying the presence or absence of nuclear weapons on particular aircraft or ships (NCND)," she said.

O'Leary said that the United States has "removed all tactical nuclear weapons and the nuclear capability from most of our ships, although our NCND policy remains in place."

New Zealand's Somers Commission has also found U.S. nuclear-propelled Navy ships to be safe.

"We are hopeful that at some point New Zealand will be in a position to rethink its anti-nuclear legislation in light of these facts and the changed international circumstances," O'Leary said.

O'Leary also summarized U.S.-New Zealand cooperation on other areas, including the establishment of the World Trade Organization (WTO), the Asia Pacific Economic Cooperation forum (APEC), the ASEAN Regional Forum, peacekeeping operations, and Antarctic programs. The U.S. Antarctic Program is based in Christchurch, New Zealand.

O'Leary concluded that "despite the encouraging developments of recent years, the world remains an unsettled place and alliances and partnerships are of no less value than they have been in the past. Democratic countries still need to work together to preserve peace and to promote our mutual prosperity. New Zealand and the United States are natural partners, and we would like to see our cooperation extend once again across all aspects of our respective policies, including in the security arena."

(begin text) THE UNITED STATES AND NEW ZEALAND STATEMENT BY SANDRA B. O'LEARY, DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIA AND PACIFIC AFFAIRS, DEPARTMENT OF STATE

BEFORE THE HOUSE INTERNATIONAL RELATIONS COMMITTEE SUBCOMMITTEE ON ASIA AND THE PACIFIC

July 31, 1995 It is a pleasure to have this opportunity to appear before the Subcommittee to discuss our relations with New Zealand and that country's impressive economic reforms.

Over the past decade, New Zealand has undertaken far-reaching reforms that have completely changed the direction of what was once a bloated and stagnating economy.

By privatizing state industries, mandating fiscal responsibility, pursuing deflationary growth strategies, and opening New Zealand's doors to foreign goods, services and investment, the Labour and National Governments have transformed the New Zealand economy from the sick man of the Organization for Economic Cooperation and Development (OECD) to one of its top performers. Economists now estimate that with its open market and global competitiveness, New Zealand may well gain more from the Uruguay Round than any other economy.

American business is also showing its confidence in New Zealand's long-term economic prospects — investing almost five billion U.S. dollars (gross flows) in New Zealand industries over the last four and a half years. Across the economic spectrum, Americans are now deeply involved in contributing to — and learning from — New Zealand's economic success story. Kraft, International Paper, Ameritech, Wisconsin Rail, and Bell Atlantic are just some of the U.S. firms making their mark in New Zealand's economy.

We are now New Zealand's number two foreign investor and vie with Japan as its second or third largest trading partner. In short, we enjoy a thriving economic partnership in the context of an overall relationship that is growing progressively stronger.

U.S.-NEW ZEALAND RELATIONS Before focusing in detail on New Zealand's economic success story, let me briefly review the efforts the Administration has made under President Clinton's leadership to strengthen our ties with New Zealand. These efforts, of course, culminated in Prime Minister Bolger's successful meeting with the President at the White House in March of this year.

I should state at the outset that the ultimate aim of our efforts with respect to New Zealand is to restore the broad range of ties — including security links — with New Zealand that we enjoyed prior to the events of the mid-1980s. However, an important item of "unfinished business" remains on the agenda.

Mr. Chairman, you may recall that at the President's direction, the Administration completed a review of U.S. policy toward **New Zealand** in February 1994. This was the first such review undertaken since the mid-1980s, when **New Zealand** adopted anti-nuclear policies, later enacted as legislation, that effectively bar visits by U.S. Navy ships to that country.

The **New Zealand** legislation does this in two ways. It prohibits visits by nuclear-powered vessels; some 40 percent of U.S. Navy combatants are nuclear-propelled. It also requires the Prime Minister to determine that ships and aircraft are not carrying nuclear weapons before granting them permission to visit. This of course conflicts with our longstanding, global policy of neither confirming nor denying the presence or absence of nuclear weapons on particular aircraft or ships (NCND).

Given the inability of our ships to visit **New Zealand**, we suspended our defense obligations to that country under the ANZUS alliance in 1986. Needless to say, this was not an easy decision. **New Zealand** long had been one of our closest allies, a country whose men and women fought alongside U.S. forces in virtually every major conflict this century.

And yet it was clearly impossible to sustain defense obligations to a country which no longer permitted access by our Navy ships, given that our ability to carry out those commitments rested in large measure on the naval aspects of the ANZUS Alliance relationship. Similarly, since U.S. ships could not visit **New Zealand**, it followed that U.S. forces could not exercise with their **New Zealand** Defense Force counterparts, and joint military exercises were ended as well.

Much has happened since **New Zealand** passed its anti-nuclear legislation, Mr. Chairman. The Soviet Union has collapsed, bringing the Cold War to an end. The absence of East-West rivalry has dramatically reduced the possibility of a major nuclear conflict.

We have removed all tactical nuclear weapons and the nuclear capability from most of our ships, although our NCND policy remains in place. At the same time, an exhaustive study issued by **New Zealand's** own Somers Commission has found U.S. nuclear-propelled Navy ships to be safe.

Meanwhile, we have worked with **New Zealand** to achieve an indefinite extension of the Nuclear Non-Proliferation Treaty. We will coordinate closely with **New Zealand** as well as we seek to conclude a Comprehensive Test Ban Treaty in the coming year.

The U.S. is also acting in a manner consistent with the relevant provisions of the South Pacific Nuclear-Weapons Free Zone Protocols.

We are hopeful that at some point **New Zealand** will be in a position to rethink its anti-nuclear legislation in light of these facts and the changed international circumstances that I have described.

In other areas, the U.S. and **New Zealand** are cooperating closely on a range of issues involving the establishment of a new World Trade Organization (WTO), the Asia Pacific Economic Cooperation forum (APEC), the ASEAN Regional Forum, peacekeeping operations, and our Antarctic programs (the U.S. Antarctic Program is based in Christchurch, **New Zealand**).

**New Zealand's** early contribution to the Korean Peninsula Energy Development Organization (KEDO) is but the latest example of areas where our two countries are cooperating to meet challenges to international peace and security.

It was against a background of increasing cooperation and a broad confluence of interests, then, that the Administration decided in February of last year, as the result of our policy review, to restore senior-level contacts between officials of our two governments for discussions on political, strategic, and broad security matters. It seemed to us, Mr. Chairman, that the dramatic changes outlined above, many of which stem from U.S. initiatives, offered an opportunity to take another look at how we might work constructively on security issues with **New Zealand** as part of our joint effort to meet the challenges and opportunities of the post Cold-War era.

Despite the encouraging developments of recent years, the world remains an unsettled place and alliances and partnerships are of no less value than they have been in the past. Democratic countries still need to work together to preserve peace and to promote our mutual prosperity. **New Zealand** and the United States are natural partners, and we would like to see our cooperation extend once again across all aspects of our respective policies, including in the security arena.

In this spirit, our February 1994 policy review set the stage for a series of important high-level exchanges between our two countries aimed at expanding our dialogue across the full range of our common interests and concerns.

Meetings between Secretary Christopher and Foreign Minister McKinnon and other senior-level contacts, including a visit by Deputy Secretary Talbott, laid the groundwork for the historic encounter between the President and **New Zealand's** Prime Minister here in March.

President Clinton's meeting with Prime Minister Bolger was the first such meeting to take place at the White House in eleven years. That meeting was not an end in itself, but rather the beginning of a new stage in a process of political reconciliation that will, we trust, enable our two democratic countries to reestablish the kind of close links that previously served our joint interests so well.

**NEW ZEALAND ECONOMIC REFORMS** Let me now turn to **New Zealand's** economic reforms. As we look today at **New Zealand's** sweeping reforms and impressive economic record, I would like to begin with a minor word of caution. **New Zealand** has been seen as a potential model for other modern economies, showing clearly the benefits of free market economics and open trade and investment regimes. In the 1994 World Competitiveness Survey, **New Zealand** ranked seventh among OECD economies, rising quickly from 18th just three years earlier. Over the past decade, **New Zealand's** exports of goods and services have grown by 89 percent by value, while imports have grown by 56 percent.

But we must remember that **New Zealand** is an economy of only 3.5 million people with, until now, a parliamentary system which guaranteed strong majority governments with almost complete freedom to chart the country's economic course. Its small population also meant the country's economy was more amenable to rapid structural change than is the case in larger, more diverse societies.

We must also not forget that **New Zealand's** rapid reforms were gut-wrenching for many Kiwis, as layoffs and double-digit unemployment were the transitional results of the dramatic economic restructuring that laid the basis for **New Zealand's** current economic success. Furthermore, with the advent of **New Zealand's** new Mixed-Member Proportional (MMP) electoral system, the

next election — which must take place before November 1996 — is likely to produce coalition governments less able to pursue sweeping reforms than their predecessors.

This is not to say that **New Zealand** is about to reverse its economic course. On the contrary. There is considerable consensus across **New Zealand's** political spectrum that the deflationary growth strategy and open door policies, begun by the former Labor government and carried on by the conservative National Party which defeated Labor in 1990, have proven their worth.

The reasons for this broad support for **New Zealand's** current economic strategy are clear. From having been one of the three or four richest countries on a per-capita basis in the early 1950s with full-employment, **New Zealand** fell to about twentieth in the international rankings by the end of the 1970s.

Between 1975 and 1982, there was virtually no growth, while inflation averaged about 15 percent per year. Unemployment, only one percent in 1979, rose rapidly to seven percent in the early 1980s, while consumers' purchasing power plummeted. Much of the problem stemmed from the fact that **New Zealand** had become one of the world's most highly regulated economies.

Briefly, the reforms of the 1980's and early 1990's consisted of slashing high protective tariffs and abolishing import quotas, ending expensive agricultural subsidies, passing the Reserve Bank Act to fight inflation, removing foreign exchange controls and floating the **New Zealand** dollar, passing the employment contracts act to reduce labor market rigidities, and selling off government-owned monopolies and other government economic enterprises, to American companies, among others. A few industries remain protected (autos/auto parts, clothing, cloth and footwear) but tariffs even in these sectors are gradually being phased out.

After years of hardship, New Zealanders are finally enjoying the fruits of economic reform. Real Gross Domestic Product (GDP) rose from a negative 1.3 percent growth in 1992 to a positive 5.5 last year, one of the highest rates in the OECD. This year, thanks to the monetary tightening begun by the **New Zealand** Reserve Bank almost a year ago, the economy looks ready to settle into a more sustainable long-term growth pattern — probably growing around 4.7 percent this year, according to the Reserve Bank. The consensus among **New Zealand** economists is that it will continue to grow by 3-4 percent in subsequent years.

Under the Reserve Bank Act of 1989, deflationary and sustainable growth is the number-one priority of the independent central bank. Bank Governor Don Brash closely monitors domestic interest rates for any signs of overheating and is quick to put on the brakes when monetary conditions worsen.

In a strict agreement between the government and the Reserve Bank, underlying inflation is kept within a narrow range of 0-2 percent and has remained in that range for most of the last four years. While underlying inflation did tiptoe across the border in the June quarter of this year (at 2.2 percent), inflation has probably peaked and looks set to return to the middle of the Bank's target range by year's end. The result: Kiwi purchasing power is now on the rise, and broad support exists for the bank's policy direction — although the Labour Party would like to see the range of allowable inflation increased slightly to foster greater growth and more social spending.

**New Zealand's** open door policy to trade and investment has resulted in an ever-expanding range of consumer choice at cheaper prices. Only ten years ago, licenses were required to import a wide range of consumer goods from beer to autos. It took six weeks to have a business phone connected by the government telephone company, and in real terms phone calls cost four times what they do today. Reserve Bank permission was required to subscribe to an overseas magazine.

There were two sorts of refrigerators available on local markets — both made by the same company to the same specifications. It was against the law to make carpets from anything but wool. Only the government broadcast television programs. And the railroads employed four times as many people to move the same quantity of goods as now.

Now, domestic producers must innovate constantly, increase productivity, and lower prices to remain competitive both at home and abroad. Foreign direct investment is welcomed, with the Overseas Investment Corporation turning down less than a handful of requests over the last few years — and those all involving sensitive land acquisitions.

A flood of new investment, about 33 percent of this from the U.S. in recent years, has brought in new technologies and managerial know-how to New Zealanders who embrace new ideas as eagerly as any of the vibrant East Asian economies. For American investors, **New Zealand** provides not only solid growth potential but a comfortable foray into the Asian market for companies just beginning to globalize. Over 50 percent of **New Zealand's** sharemarket is also now in the hands of foreign interests.

More internationally competitive as a result of economic reform, the **New Zealand** economy is enjoying the best combination of conditions in decades. In addition to stable growth, **New Zealand** figures indicate that unemployment was down to 6.6 percent in March from 10.4 percent in December of 1992. Government surpluses are mounting, and the government intends to reduce net public debt to less than 30 percent of GDP and to eliminate all foreign debt by FY 1996-97. The government ended the 1993-94 budget year on June 30 with the first budget surplus since 1978, and with growing surpluses forecast for the next four years.

Much of these surpluses is being used to reduce foreign debt. Eventual tax cuts for voters and business are likely as well. With union membership down 38 percent in four years, work stoppages are less than half their 1993 levels. The trade account for the year remains in the black, although, there was weakening in the second quarter due to a sharp rise in the value of the **New Zealand** dollar since January **1995**.

Business and consumer confidence, which have fallen as inflation and interest rates climbed over the past nine months, remain positive. Most economists now expect the **New Zealand** economy to make a successful soft landing later this year, with real interest rates and the exchange rate moving cautiously downward for the next year or more. This is good news for **New Zealand** exporters who had begun to worry that an over-valued **New Zealand** dollar (rising four percent this year against the US dollar) was beginning to bite into foreign sales.

The U.S. vies with Japan as **New Zealand's** second largest trading partner. In the year ending 1994, **New Zealand** sent us approximately US\$1.4 billion in exports (largely agricultural), while we exported US\$1.5 billion to **New Zealand** (primarily machinery, aircraft and parts, other transportation equipment and parts, plastics, chemicals and fertilizers, and optical/medical/surgical equipment).

While stock figures for direct foreign investment are notoriously unreliable in any economy, net US direct foreign investment, to date, in **New Zealand** probably totals somewhere around \$4 billion.

Recent notable U.S. investments have been H.J. Heinz's acquisition of the largest **New Zealand** food processor in 1992; ITT Rayonier's purchase of government-owned forests in 1992; Ameritech and Bell Atlantic's purchase of the government telephone company in 1990-93; Wisconsin Rail's investment in the government-owned railroad in 1993; acquisition of the government computing center and the banks' clearing house computer company by EDS in 1994, and International Paper's acquisition of the paper firm Carter Holt Harvey. Even sales of rural land to US investors rose four-fold in 1994.

With exports accounting for almost a third of GDP, the **New Zealand** government's international economic agenda is aimed at increasing the opportunity for further expansion of competitive **New Zealand** exports and to attract even greater foreign investor interest in the **New Zealand** economy. To that end, **New Zealand** is a strong supporter of global and regional trade and investment liberalization.

**New Zealand** was an important member of the Cairns Group which helped persuade the European Union to better its agricultural offers during the Uruguay Round. **New Zealand** strongly supports the World Trade Organization (WTO) and the free trade goals of the Asia Pacific Economic Cooperation (APEC) forum. **New Zealand** has also expressed interest in free trade agreements with Chile (now in abeyance), has a flourishing free trade/investment arrangement with Australia (the Closer Economic Relations, or CER, agreement) and would perhaps like to see some eventual CER **link** with ASEAN's AFTA and our own NAFTA or FTAA.

The U.S.-**New Zealand** bilateral economic relationship is close and cooperative. We have largely similar or parallel goals in APEC, GATT/WTO and other multilateral economic fora. The GNZ generally supports U.S. positions on multilateral and bilateral economic issues.

While bilateral economic relations are strong and cooperative, **New Zealand** — as a major non-subsidizer — does oppose the recent expansion of the United States Dairy Export Incentive Program (DEIP) into Asian markets. The U.S. has reassured the Government of **New Zealand** that the DEIP program is consistent with our commitments in the GATT Uruguay Round, and that it will seek to minimize any negative impact on fairly traded commodities.

We are also concerned that sanitary and phytosanitary regulations in both **New Zealand** and Australia under the CER are restricting market access of US pork, chicken, and some fruits and vegetables.

These are but minor stresses in an otherwise strong and increasingly interdependent economic relationship. Such issues are discussed through a mechanism set in place in 1992 to resolve bilateral economic issues — the Trade and Investment Framework Agreement. We held our last consultations under this agreement in Washington on July 7, **1995**.

Mr. Chairman, this concludes my prepared remarks covering the current state of U.S.-**New Zealand** relations and economic reforms implemented by the **New Zealand** governments since the mid-1980s. I would be happy to answer any questions that you might have. Thank you.

(end text) NNNN